

VZCZCXR05377
PP RUEHDE RUEHDIR
DE RUEHKU #0874 1560756
ZNR UUUUU ZZH
P 050756Z JUN 07
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC PRIORITY 9291
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS KUWAIT 000874

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STATE FOR NEA/ARP, EB
TREASURY FOR DAS AHMED SAEED, JONATHAN ROSE

E.O. 12958: N/A

TAGS: EFIN ECON PREL KU

SUBJECT: WORLD BANK NOMINEE ZOELLICK TALKS ASIA IN KUWAIT

REF: KUWAIT 865

¶1. (SBU) On May 23, World Bank President Nominee and Goldman Sachs Group Vice Chairman Robert Zoellick delivered the keynote address at the Eighth Annual GCC Banking Conference hosted by Kuwait. Zoellick provided a brief historical overview of the tremendous growth of the world economy and highlighted key areas influencing today's economic outlook including the Asia factor, the role of the U.S. and potential risks to Middle Eastern economies. Organized by the National Bank of Kuwait in cooperation with the GCC Secretariat General and the Central Bank of Kuwait (CBK), the conference entitled "Managing Growth and Risk in an Era of Openness" featured insights from regional and international financial experts on the role of the Middle East in the global economy (reftel).

The Asia Factor

¶2. (SBU) Zoellick identified liquidity and Asian expansion, especially vis-a-vis China, as key factors that will affect the role of the Middle East in the global economy. He stressed that markets are a tool not an end, especially in China where job creation, internal migration, education, environmental issues, and the globalization of Chinese firms will impact long-term economic performance. Zoellick provided an overview of the changes in the world economy since World War II, when there were about a billion people in the world. Population has quadrupled with the growth of China, India and other population centers. He explained that the Middle East is increasingly oriented towards these Asian markets where, in the midst of record liquidity in the Gulf, countries like Singapore and Malaysia are trying to become regional centers for Islamic finance.

Role of the U.S.

¶3. (SBU) Turning to the U.S., Zoellick noted that domestic insecurity caused by change and the rate of change is exacerbating other domestic issues including the immigration debate. Some Americans long for a return to a slower time, he said, noting that some members of Congress won during the last election while running on an isolationist platform. This is not the solution, he continued, advocating the view that people need to adjust to change -- not avoid it.

Potential Risks to GCC Economies

¶4. (SBU) Responding to a question on potential risks for GCC economies, Zoellick stated that a pandemic, large-scale terror incident, rise of protectionism, struggle for the soul

of Islam and/or the rise of China and Asia could all impact the role of the Middle East. He predicted that the long-term global economic outlook is good but advised that countries should have adequate monetary instruments in place to deal with shocks along the way. For example, he observed that China's exchange rate policy limits that country's ability to use it as a monetary instrument to address change.

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